

Local Government in the Transition to Democratic Societies

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Deputy Prime Minister Kinakchiev, Deputy Minister Bokova, USAID Representative Tennant, and other distinguished delegates:

I am delighted to participate in this important, indeed historic, conference. Together, we are a gathering of city mayors, national and regional ministers, and private and public sector representatives from 20 countries -- nearly 200 people with hands-on experience in building democracy and improving people's lives at the local level.

From the perspective of the United States Agency for International Development (USAID), thank you all for honoring us with your presence. We are gathered to celebrate ongoing political and economic changes at the grass roots. And you, the change agents, are the heroes we honor in this celebration.

It is my firm belief that the process of democracy grows upwards from the roots. The roots of democracy are local citizens' organizations, local economic enterprises, a local free press and, of course, local governments. The roots are nourished by fully participating local citizens improving their communities, by hard work and a commitment to public service among local elected and appointed officials, through a professional spirit and high standards among local workforces, by good environmental practices, and with sufficient and sustainable funding.

Just this weekend I witnessed this nourishment taking place here in Bulgaria. I visited the northern cities of Rousse and Razgrad, and the central city of Gabrovo where I saw first-hand what Mayors Kalchev, Uzunov, and Dachev are achieving despite the difficulties of Bulgaria's transition. These elected leaders and their communities illustrate that as more power is vested in local governments, in community-based organizations, and in the people themselves, the roots from which democracy grows are strengthened.

I see a whole region -- from Vladivostock to Vilnius, from Tashkent to Tirana - - that has its best days ahead. Even when immediate problems are evident, there is

strong reason for optimism. And even when it is hard to see beyond the day's discouraging news on exchange rates and inflation, you and I still know that the world is very different from the old days. The forces of democracy and market economies are taking hold; reform is bringing bold new freedoms and opportunities to people.

Power is flowing to the grassroots. Societies that until recently were tightly managed from the center are becoming societies where important decisions are being made at the local level -- by those who elect their governments and those elected to govern. With an ongoing commitment to change and a unity of purpose among the citizens -- and among the cities in lobbying associations, I believe bad times can be reduced to bumps on the transitional road to economies based on choice and competition, and to local governments of, by, and for the people, and led by freely elected representatives.

Here in this region, a major purpose of the United States is to help reinvigorate and strengthen local governments. We want to see the latest management techniques adopted, and new technologies put in place. We want to help to open up the process of governing to all citizens.

We at USAID are proud to be your partners in this historic endeavor. At the same time, we are mindful that solutions to your problems must fit your own needs and circumstances. We are both learning. And over the next few days, we will all learn from each other what is being accomplished in your cities and your countries.

Why do we advocate local empowerment? Because it works in the short run and in the long run. Those closest to a problem are best positioned to solve it. There are many reasons for this, but three stand out:

- First, local governments and citizens have stronger incentives to reach a solution. If my garbage is not collected, or if water is not flowing to my kitchen or is not safe to drink, I see the problem every day. For someone in a remote national institution, the problem is abstract. No matter how truly concerned the national official is, or how sincerely he or she may want to help, he or she does not have to see and smell the garbage or collect and boil the water every morning.
- Second, those closest to a problem have much more accurate information about its cause. If I see trash collectors playing cards at the neighborhood cafe every morning, I can begin to understand why my trash pile keeps getting bigger and is not removed. If I see water leaking from long-broken neighborhood pipes, or a reservoir contaminated by pollutants, I can

understand why the water in my kitchen faucet is unsafe to drink -- for my children, my wife, and me.

A third and compelling reason is that those closest to the problem can often identify innovative solutions and can bring together the resources to implement them. Perhaps the city simply does not have the funds to pay the garbage workers or keep their vehicles in repair. One possible solution may be found in hiring specialized firms to collect garbage, changing the town's part of the task from direct collection to overseeing the collection operation. For cleaner water, solutions may involve simultaneous technical improvements in the reliability and quality of water supply systems, along with water fees based on actual costs, to permit investment in new pipes, and in maintaining the system. There is no incentive to pay for water not delivered, or for water delivered too dirty to drink. But experiences worldwide demonstrate that people will willingly pay when they know they will receive the services they pay for.

This region is now emerging from a long period of excessive central government. As you know, the United States has had a very different experience in its 208 years, with the base of political and economic power centered at the local level. This is the foundation of our political freedom and economic vitality. This is why we stress the advantages of strong local government in our work with our partner countries. This is why we celebrate every participant at this conference.

All of us need both local and national institutions. The two complement each other in a system of democratic governance. National governments play an important role in setting the political and legal framework. Local governments fulfill the framework's functions. The goal is to work appropriately at both levels to help create effective governance and solve community problems. In mature democracies, tensions exist over which functions are best performed at which level. The challenge is to develop a mix of local and national actions that improve people's lives.

National and regional Municipal Associations are effective vehicles for influencing reform at the national level. In a number of countries, USAID is helping local officials to develop or strengthen their organizations. The associations in Slovakia, Bulgaria, and Ukraine are important actors in the decentralization strategy. The Ukrainian association, to cite one example, is a key supporter of the new reform-oriented President. It is effectively advocating reforms, working within a national constitution that gives local governments the power they need to solve community problems.

I was recently asked whether it makes sense to work toward strengthening local government in a national environment that may not fully appreciate and support local empowerment. My answer was: Yes, it makes sense. But what is clearly needed is a two-pronged strategy that integrates local and national policies. You and your national representatives must work at the national legislative and executive level to gain the necessary authority and resources. At the same time, you need to build capacity at the local level. The rhythm and route are clear: from the grassroots to national government, from the national level back to the grassroots, constantly pushing and pulling from bottom to top, and from top to bottom.

In the region's transitional period, local government has a major role to play. For example, privatization has removed the costly burden of maintaining housing from local authorities unable to handle the responsibility within their badly strained budgets. In Moscow alone, nearly one million housing units that were a municipal responsibility are now maintained and serviced by private companies under contract to the city. In other Russian cities, such as Nizhny Novgorod and Tver, as well as in four Ukrainian cities, privatized residential buildings now belong to apartment owners organized as condominium associations, and maintenance and management chores are being shifted to private management companies. Every step along the way counts. The financially-strapped Housing Enterprise of Kosice, Slovakia has privatized at least one-third of its 30,000 units.

Such privatization efforts are significant. But there is a side benefit that is equally significant, strengthening and deepening local civil society. With the formation of condominium associations, owner-members are now organized to lobby government for their interests, shaping and reshaping policies that articulate the will of the people. This is open, representative democracy in action. In many countries of the region, national laws now form the legal framework for condominium associations.

This leads me to the most crucial point of all -- how cities raise and spend money to deliver public services. Local finance is a priority in our partnerships. Our technical assistance has helped improve financial management and local budgeting processes in, for instance, the Czech Republic, Hungary, Estonia, Kazakhstan, Kyrgyzstan, Russia, and Ukraine. In all these countries, increased public awareness -- and participation -- in budget-making is a feature of the work.

Four principal ways exist to finance local governmental operations:

- First is the traditional way -- through transfers from the national government. But under current circumstances, as you know, this is not always a dependable source of finance.

- Second is ensuring that local authorities have the ability to raise funds directly from taxes. Tax reform is a whole subject in and of itself, but the key to raising local revenue is local economic development. Mayors, city councils and municipal officials must also understand how to encourage private entrepreneurs to start and expand local businesses and to invest in the economic development of the city. USAID has supported the development of land registration systems, which enable private real estate developers to invest in property improvements in the city. And many cities, with USAID help, are experimenting with auctions to sell municipal land. Combined with systems to register land and property titles, to permit sales of real estate assets, to use real property as collateral for loans to finance business and home improvements, and as the basis for raising local revenue, this approach generates revenues and encourages investment.
- Third, as cities improve the efficient delivery of public services, they gain through their ability to charge reasonable fees for such services. We have assisted many countries to recover the cost of the services they provide from the people who benefit. Orenburg, Russia has installed water meters, a cost-saving effort that will also conserve water, and Lviv, Ukraine soon will. Semipalatinsk, Kazakstan has reduced costs and improved efficiency dramatically by using competitive tendering to contract with private companies to provide water, heat and electricity. This is an innovative initiative in a country where these commodities have traditionally been viewed as exclusively, and often "free," public services.
- Fourth, and most exciting, are the prospects for raising funds on private capital markets. Let us look at our work in the Czech Republic. American private financial institutions have made \$24 million in loans available through the Czech Municipal Finance Company, and USAID has provided guarantees that minimize the risk of those loans. These loans, provided directly to cities through the country's private banking system, are financing much-needed infrastructure improvements. In addition to improving water supply and treatment, waste disposal and other services that improve environmental quality, this approach is revolutionizing the entire Czech municipal finance system. In Poland, too, we are witnessing major innovations in municipal finance. We expect approval soon for the first Polish city to issue and trade municipal bonds on Warsaw's new Over-the-Counter market. These bonds will raise funds for investment in new municipal facilities.

Public finance is a vibrant and dynamic method of raising capital. The 21st century will see cities from all countries competing with national governments and private corporations for resources in a globalized capital market.

But comprehensive reform of local government finance depends on a vibrant and involved civil society. The political environment is as important as the financial framework. Local democracy requires active community and local non-governmental organizations, or NGOs, that can easily and openly participate in local decision-making. Sometimes NGOs serve as active supporters of local government, and sometimes as its critics. Either way, citizens' associations are essential vehicles for the expression of the diverse needs and voices of the community -- and advocating local change.

We have learned through our Democracy Network Project (DemNet), which was announced by President Clinton in Prague in 1994, that NGOs play a critical role in promoting citizen participation within local governments. After a year and a half of working in 11 countries under a mandate to strengthen NGOs that seek to influence public policy, almost all of these DemNet projects are enhancing collaboration between citizens and local governments.

Examples of such collaboration include: training programs for NGOs to help them provide services to local governments, preparing NGOs to participate in city council budget meetings, and providing forums such as town meetings that give citizens an opportunity to speak in public settings with local officials about community needs. In short, an involved and informed citizenry working closely with and watching government at work is essential to promoting and sustaining reforms.

Indeed, much of our support for municipal finance and budgeting is equally aimed at improving citizen participation. In Hungary, we have helped mayors integrate citizens into the budget process by publishing draft budgets and holding public hearings. In Poland, with support through our Democracy Network program, NGOs have formed a network at the local level, which is working to open up the business of governing and providing quality services to the people. Twenty-nine NGOs have received institutional strengthening grants from USAID. Also in Poland, in the city of Lublin, we supported a neighborhood upgrading program that included the participation of community organizations throughout the planning process. Local citizens were involved in the development of the rehabilitation strategy, economic feasibility studies, and the rehabilitation itself. More than 100 neighborhood people worked on the reconstruction, which has produced 137 newly rehabilitated houses and 55 new shops that employ 120 people. We were especially pleased when Lublin was cited as a Best Practice at the Habitat II World Conference in Istanbul this year.

In Poland, our collaboration is entering a new phase with the Partner City program, with cities as the primary clients of USAID assistance. The program will use local technical experts and encourage municipalities to set up networks to learn

from each other. We want in this way to ensure that local people will be able to continue to strengthen their local governments after USAID has departed.

Here in Bulgaria, under the Local Government Initiative, USAID is supporting a variety of activities in 10 pilot municipalities. For instance, in Gabrovo on Sunday morning, Mayor Dachev, Ambassador Bohlen, and I cut the ribbon to open the newly rehabilitated waste water treatment plant that will improve water quality and reduce energy costs in a system that affects not only Gabrovo, but several other important urban areas in the Danube River basin.

Together this week, we will hear of many more exemplary local efforts. We can also read about them in the *Innovative Practices Guide*, which is included in your conference packet. The *Guide* represents part of the next phase of USAID's support for local government in the region.

Realistically, as our resources for technical assistance decline, we must now look toward a future when USAID will play a smaller role in fewer countries. Estonia has already "graduated" from USAID assistance, an occasion in which Estonians and we took great pride. Next year, the Czech Republic will graduate. Our concern now is to be sure that we achieve lasting results from our partnerships with the countries and localities of the region.

We at USAID are pleased to be a partner with you in this awesome challenge. But we know very well that changes of such magnitudes can only come from within. Only when the people themselves demand and the leaders respond can there be a lasting reform of the system. The United States has contributed money and human resources to help facilitate this transformation. But the real energy -- the real political will for change and improvement -- come from you, and from your own countries.

And so I conclude my remarks by returning to the metaphor of the living roots, trunks, and branches of democracy with which I began. You have planted the seeds, watered, and fertilized the roots and you continue to do so. The rich variety of young plants symbolizing local democracy are growing and gaining strength in your equally diverse countries. As you continue to nurture these political organisms, their long-term survival and regeneration become more and more secure. That is why this conference and our work is a celebration.

I wish us well in our common adventure, and my colleagues and I appreciate the opportunity to work with you.

Thank you.